

State of Alaska FY2006 Governor's Operating Budget

Department of Natural Resources Director's Office/Mining, Land, & Water Component Budget Summary

Component: Director's Office/Mining, Land, & Water**Contribution to Department's Mission**

Encourage the settlement of state land and the development of state resources by making them available for maximum use consistent with the public interest. (Constitution; Article VIII, Sec 1).

Core Services

The primary service provided by this component is the effective management of Alaska's minerals, land and resource assets to produce revenues, create jobs, and to promote economic vitality. The Director's Office component provides the management and administrative oversight for the five other components within the Division of Mining, Land and Water. These are:

- Claims, Permits and Leases
- Land Sales and Municipal Entitlements
- Water Development
- Title Acquisition and Defense
- RS2477/ Navigability Assertions and Litigation Support

The Division of Mining, Land and Water promotes the use of state minerals, land and resources and recognizes the public benefits derived from use and development. The Division has and will continue to streamline processes and maximize economic opportunity working with the public and private sectors to stimulate and promote sound development.

The Division has structured its budget to reflect the expectation that developing the state's land and resources should, in general, pay for itself. Functions that develop Alaska by authorizing or granting resources to the private sector are funded primarily on program receipts. That is, developing the land and resources of Alaska will pay for the cost of administration and provide some return to the school fund, permanent fund and the general fund. These development functions are primarily within the Division's first two components: Claims, Permits and Leases; and Land Sales and Municipal Entitlements. The Division also undertakes some functions that are basic responsibilities of the state for which there is no revenue source. These functions are mostly concentrated within Title Acquisition and Defense. This component secures Alaska's full land entitlement under the Statehood Act and defends access to state land and water where needed. The Water component is a partially regulatory component. It does not provide the revenue necessary to fund its function. The 2001 legislature provided a fee methodology for the water management part of the component to use in raising revenue for that function.

Revenue and Cost. In FY04, revenue for the division was \$15.3 million (from all sources), and costs were \$13.2 million. The revenue is almost all generated by two components: Claims, Permits, and Leases; and Land Sales and Municipal Entitlements. The revenue from those two components more than carried the costs for the entire Division. In FY05 the Division expects to bring in \$17.4 million in Revenue, and cost approximately \$17.1 million.

This Director's Office has taken over the functions that were formerly performed by three separate Director's offices. Two of them, the Division of Water and Division of Mining merged in 1996. On July 1, 1999, DNR's Division of Land merged with its Division of Mining and Water Management to form the Division of Mining, Land and Water. As a result of consolidation, 2 director positions and a portion of three Director's Offices were eliminated.

The **Claims, Permits and Leases** component provides the authorizations necessary to develop Alaska's Land. There are few, if any, industries that use State land that do not require an authorization provided by this component. The component costs approximately \$9.1 million (including \$7.3 million of general fund and program receipt income). However, the direct revenue collected by this component is expected to be almost \$10.1 million. These revenues do not include all revenues generated by the development of state land, only the fees, rents, and royalties collected directly by this component. That is, the figures do not include oil and gas royalty, forestry stumpage fees, mining license tax, etc.

The **Land Sales and Municipal Entitlements** component provides land sales to individuals and transfers land to municipalities. The \$5.8 million expected in principal and interest from current and past land sales and other income is greater than the \$5.4 million (including CIP's) funded by the Land Disposal Income Fund in this component.

The **Title Acquisition and Defense** component acquires land and defends the state's interest in land. The outcomes of this component are basic mandates of any state in the Union. The component includes the work necessary to acquire land (including more than 103 million acres as the state's entitlement) from the federal government, and defend access to land through ANCSA 17(b) easements, RS2477 assertions, navigability determinations, etc.

The **Water Development** component includes administration of water rights, Alaska Hydrologic Survey and Dam Safety. It provides the water rights and hydrologic data necessary for development that appropriates and makes beneficial use of the state's water resources.

The **RS2477/ Navigability Assertions and Litigation Support** component is a small specialty component that is continued from previous budget years.

FY2006 Resources Allocated to Achieve Results

FY2006 Component Budget: \$413,500	Personnel:	
	Full time	5
	Part time	0
	Total	5

Key Component Challenges

This section summarizes the key challenges for the remaining five components within the Division of Mining, Land and Water. For more information see the discussion within individual components.

LAND ISSUES

- **Extending the North Slope Oil Exploration Season.** Over the last three decades, the winter oil exploration season on the North Slope has decreased by half. Extending the winter exploration season in an environmentally responsible manner is an important challenge for the Division, for the oil industry, and for Alaska. (For more information, see description in Claims, Permits, and Leases Component.)
- **RS 2477 Assertion and Easement Management.** The Division is expecting to support the Department of Law in quiet title action against the federal government to acquire undisputed title to three RS 2477 rights-of-way that have been the state's right since before statehood. The quiet title action is expected to set precedent for other rights-of-way owned by Alaskans but long denied by the federal government. In addition, the management of RS 2477s and other easements is becoming an increasingly significant issue with the public. The Division is seeing an increase in requests to assert RS 2477s and other easements or rights-of-way, define exact locations for previously asserted easements, and to vacate those previously asserted. The staff time required to resolve these issues is large, ever-increasing and under-funded. (For more information see both the Claims, Permits and Leases; and RS2477/Navigability components.)
- **Permit/Lease Processing.** In many cases, it takes too long for the Division to process permits or leases. This is in part because of the procedures required and in part because there is not enough staff to do the work required. Methods to increase efficiency and improve the quality of the Division's land management include making better use of technology through such techniques as allowing on-line payment and applications, and through streamlining procedures and processes.
- **Land Sales to Alaskans.** The key issue for land sales for FY06 is to identify and offer new areas for sale under the Subdivision and Remote Recreational Cabin programs, and to find methods to increase revenues from the already profitable program. In FY05, the Department was funded to increase the level of land sales: to begin a process of increasing the level of pre-surveyed lots offered to 300. Unfortunately, in the FY05 funding request, the Department underestimated the survey requirements for the work. Therefore, this budget includes an increment necessary to

accomplish the annual 300-lot new offering. The increment will increase the offerings from 100 in this fiscal year to 200 lots in FY06 and 300 lots in FY07 and future years. (For more information, see description in Land Sales and Municipal Entitlements Component.)

- **Land Transfers to Municipalities Under Municipal Entitlements.** The challenge is to meet the accelerated schedule and performance measures for municipal entitlements: and 180,000 acres in FY06. (For more information, see description in Land Sales and Municipal Entitlements Component.)
- **BLM Accelerated Land Conveyance Plan (BLM 2009).** The US Bureau of Land Management (BLM) intends to increase the rate of land transfers to the state starting in 2004, with an ambitious goal of largely fulfilling land transfers to ANCSA Corporations, Native Allottees and the state by 2009. The challenge is for the Division to provide its review in a manner that protects state interests but does not slow (or even accelerates) BLM's transfer process. (For more information, see description in Title, Acquisition and Defense Component.)
- **Review of Easements under Sec. 17(b) of ANCSA.** The Division is actively involved in the identification of easements that are reserved in federal conveyances to Native corporations, and to helping resolve management issues affecting state these easements and state land. The challenge is to defend state's rights in ANCSA decisions and during BLM's termination process, and to help resolve management issues. (For more information, see description in Title, Acquisition and Defense Component.)
- **University Land Conveyance.** Conveyance of 250,000 acres of State Land to the University of Alaska to supplement the University's federal land grant is expected to be proposed to the Alaska Legislature. If passed by the Legislature, implementing this grant will be an important challenge for the staff in this component.
- **The School Trust Lands** valuation and litigation is part of the Title Defense Project. Resolution requires significant staff work, in a manner acceptable to the court. (For more information, see description in Title, Acquisition and Defense Component.)
- **Navigability.** The issue of navigability determines who owns and manages the land under waterbodies in Alaska. The Division is working with BLM to use a new, Recordable Disclaimer process to clearly establish the state's legal right to the land under these waters. (For more information, see description in the RS 2477/Navigability Assertions and Litigation Support Component.)

WATER ISSUES

- **Funding and Performance Measures for Service.** In legislative discussion in 2001, the Division committed to ensuring that a typical new water right be adjudicated within 60 days and a typical new temporary water use authorization within 20 days. Because of an effective \$300,000 budget reduction in FY05, the Department cannot meet this performance measures. New water right applications instead of taking two months take six. Some may never be processed. This reduction in service has serious consequences for Alaska's industry and citizens. It puts development and Alaskans' property rights at risk. To solve this problem and return to the FY04 level of service — typical water rights adjudicated within 60 days — the Department has proposed two budget increments. (For more information, see Water Development Component.)

MINING ISSUES

- **Mining Reclamation.** The 2004 legislature changed mining reclamation laws and regulations to accommodate Alaska's current large mine industry, as well as placer mines. During FY05 DNR will issue regulations to implement the law. In FY06, DNR will implement the regulations.
- **Mineral Property Management.** Alaska is experiencing a resurgence of claim staking. The increase in gold prices, recent finds, and Alaska's proven ability to permit a mine has attracted a large increase in claim staking. This is excellent news for Alaskans, but has strained the existing staff. As a result, DNR is proposing an increment to be able to be able to process new and amended claims in a timely manner.
- **Permitting and Managing Alaska's Large Mine Industry.** Until the early 1990s, Alaska held only a placer mine industry. Since that time, Alaska has developed an increasing industry of large mines: Fort Knox, True North, Pogo, Greens Creek, and soon perhaps Kensington, Donlin Creek. The Division needs additional staff to help permit large mines, and ensure that they remain in compliance with environmental laws. The Division is proposing an increment for this purpose.
- **Mining Projects.** An important challenge for Alaska is completing the permitting to enable the development (or continued development of Alaska's Large Mines):
 - **Pogo Project.** Permitting in FY04; Construction in FY04 and 05.
 - **Red Dog.** Revise permits and re-establish reclamation bond in FY05.
 - **Kensington.** Finish EIS and permit evaluation in FY05.
 - **Green's Creek.** Finalize tailings expansion EIS and permit evaluation in FY05.
 - **Illinois Creek.** Finish Reclamation in FY05.

- **Usibelli Coal Mine.** Maintain requirements of federal primacy program in a manner consistent with Alaskan needs.
- **Rock Creek.** Begin permitting in FY05
- **Donlin Creek.** Provide appropriate support to permitting and development plans in FY05.

Significant Changes in Results to be Delivered in FY2006

- **A longer Winter Oil Exploration Season for the North Slope.** See Key Component Challenges, above.
- **Support for Department of Law Quiet Title Assertion of RS 2477s.** See Key Component Challenges, above.
- **Mining Reclamation Laws and Regulations that Reflect Needs of Large Mines.** See Key Component Challenges, above.
- **Permit/Lease Processing.** The Division is implementing new policies and automation changes that it expects to provide much greater predictability in processing land use permits and possibly leases in FY06.
- **Expanded Land Sale Program.** The Division is proposing an increment to the land sale program to increase the number of pre-surveyed lots offered to Alaskans. See discussion under "Major Component Challenges."
- **Accelerated Land Conveyance from BLM (BLM 2009).** If BLM receives funding to accelerate their conveyance process, the Division is expected to receive significant federal funds to work with BLM. If so, we expect that up to 2 to 3 million acres of federal land could be conveyed to Alaska in FY05. For more information, see description under "Key Component Challenges."
- **University Land Conveyance.** The Division expects to be implementing the University Land Conveyance in FY05. Until a bill is passed by the legislature, the exact method of implementation will not be clear.
- **Navigability and RS 2477.** DMLW will focus its efforts on assertions of state ownership of navigable waters and RS 2477. For discussion, see the RS 2477/Navigability Assertions and Litigation Support component.

Major Component Accomplishments in 2004

This section summarizes the major component accomplishments for the remaining five components within the Division of Mining, Land and Water. For more information see the discussion within individual components.

REVENUE TO ALASKA. IN FY04, the division brought in more than \$2 million more than it cost to operate. Revenue was \$15.3 million in revenue (from all sources), and cost were \$13.2 million. The revenue is almost all generated by two components: Claims, Permits, and Leases; and Land Sales and Municipal Entitlements. The revenue from those two components more than carried the costs for the entire Division. This year, the Division expects to bring in \$17.4 million in Revenue, and cost approximately \$17.1 million. Of the revenues, the Claims, Leases and Permits component is expected to bring in \$10.1 million. The Land Sales and Municipal Entitlement component will bring in another \$5.8 million. None of these revenues include revenues dependent on the Division's actions if those revenues are not directly collected by the Division; that is, they do not include oil and gas royalty, forestry stumpage fees, mining license tax, etc.

LAND ACCOMPLISHMENTS

- The division exceeded requirements of HB 208 (2002 Legislation) by offering 158 aquatic farm sites for auction in February 2004. This far exceeded the legislation's target of 90 sites. 33 sites have been sold, bringing in over \$24,000 in revenues, and 125 farm sites remain available to potential farmers.
- Approved development of the Jacobsen Trust Cruise Ship Dock on state tidelands in Juneau Harbor, generating high lease revenues to the state.
- Continued to work with local residents to clean up parcels of state land that have been used as illegal dumping sites and other illegal uses. Sites include Jim Creek near Palmer and Exit Glacier near Seward. We have removed over 50 destroyed vehicles from Jim Creek.
- Permitted and monitored the construction of the temporary and permanent road to the Pogo Mine near Fairbanks. Began collecting information from businesses conducting day use commercial recreation through an online registration

system. In addition, the division began collecting additional visitor use fees from commercial recreation businesses.

Land Sales to Individual Alaskans. In FY04, the department sold 576 parcels or 4,324 acres for a total value of \$6,367,505 in over-the-counter and auction sales. DNR offered over 100 entirely new parcels, including two subdivisions where DNR constructed internal subdivision roads to increase the value of the land and to meet borough platting requirements. Additionally, DNR offered 266 parcels for individuals to stake for remote recreational cabin sites in FY04 and prepared an additional 45 surveyed remote parcels for sale. It is expected that the over-the-counter sales will level off in future years but that the auction parcels will be more popular and therefore bring a higher price therefore continuing to fund an ongoing land sale programs. In addition, DNR will increase new subdivision offerings to 200 parcels in FY 06 and 300 in FY 07. In FY 03 and 04, the DMLW assisted in preparing the Tonsina North agricultural area near Kenny Lake, the first entirely new agricultural land sale offered by the state in over 15 years.

Land Transfers to Municipalities Under Municipal Entitlements. In FY04, DNR approved for conveyance municipal entitlement selections totaling 28,500 acres, including large tracts of land to the City and Borough of Yakutat and the several parcels to the Kenai Peninsula Borough.

Land Planning for Disposal and Development. In FY04, DNR completed an amendment to the Yakataga Area Plan and made a decision to convey 20,087 acres of land to the City and Borough of Yakutat (CBY). This decision approved 99% of CBY's selected lands and fulfilled their remaining municipal entitlement.

In FY04, DNR completed the public process for the Kodiak Area Plan that designates over 378,000 acres of uplands as available for development uses, including over 45,300 acres for land disposals. There are approximately 586,000 upland acres of state owned land in the planning area. The plan also establishes land use designations and classifications for 3.3 million acres of tidelands, the vast majority of which are classified to permit tideland use or development. The plan will be adopted in early FY05.

Title Issues. Land Transferred into state ownership – in FY04, the state received 102,695 acres from the federal government under its land grants. Land Transferred out of state ownership – in FY04, DNR issued 554 deeds to transfer approximately 21,737 acres from state to private, municipal, and other ownerships.

Colville River. Staff reviewed and edited draft federal conveyance documents, and then accepted title to an additional 14,480 acres of the bed of the Colville River. This acquisition ensured that ongoing scheduled Oil and Gas leasing operations could occur on schedule and without ownership conflict.

Denali Block II. Selections staff reviewed and edited draft federal conveyance documents in order to accept title to an additional 70,995 acres of lands with high mineral extraction potential. This ensured that mineral exploration and extraction operations could continue to occur without ownership conflict while interest in the area is high.

Conveyance Priority Nominations. Selections staff reviewed and submitted request to BLM to transfer to the state several thousand acres to further the state's various economic development priorities. These included additional lands within the Denali Block, the Pioneer oil and gas unit and North Slope Foothills to name a few. In total, the conveyance priority list submitted to BLM in October 2004 requested approximately 765,000 acres of land to be transferred to the state.

RS 2477

1. Conducted extensive research on more than 20 RS 2477 routes to identify candidates for pursuing through Quiet Title against the federal government. Selected three routes in the Coldfoot and Chandalar Lake areas for assertions in court through Quiet Title.
2. Researched several other RS 2477 routes where access issues and problems surfaced, including two routes in the McCarthy area of Wrangell-St. Elias National Park that were subject to court actions between the federal government and private individuals.
3. Reviewed all state and federal land conveyances for RS 2477 conflicts.
4. Reviewed requests for RS 2477 easement vacations to ensure viable alternative access is provided.

Navigability

1. Filed application with US BLM for a Recordable Disclaimer of Interest (RDI) for 16 rivers and 10 lakes in FY 04. As of November 2004, the BLM had issued disclaimers for six rivers and two lakes, including Lake Iliamna, the largest lake in Alaska.

2. Paid BLM processing costs for the initial RDI applications (over \$4000 per application).
3. Worked with BLM to develop a process for submitting and processing RDI applications. This is the first such process in the nation where the federal government and a state are resolving ownership of navigable waters through use of Recordable Disclaimers.
4. Issued navigability determinations for various bridge, road, and other development projects and made navigability determinations for state land conveyances to municipalities and private parties.
5. Reviewed and responded to BLM navigability determinations and proposed BLM land conveyances.
6. Assisted the Attorney General's Office in research related to administrative appeals and litigation regarding navigable waters
7. Provided information to agencies and the public on the navigability of waterbodies. Responded to requests submitted by phone, e-mail, navigability website, letters, etc.

MINING ACCOMPLISHMENTS.

In its role in permitting and in the technical review of large mine projects, in FY04 the division completed the following:

- Completed the process initiated in FY2000 in working with EPA on the *Pogo Mine Project*. Federal EIS and all state permits were issued in December 2003;
- Completed with the USFS the *Greens Creek Mine Project* tailings expansion EIS, DEC Waste Management Permit and revised reclamation bond in December 2003;
- Continued process to issue DEC Waste Management Permit, DNR Reclamation Plan and revised financial assurances for the *Red Dog Mine Project*. Completion of these efforts scheduled for late 2005.
- Continued to monitor progress of the Mine to Reclaim efforts at the *Illinois Creek Mine Project*. Full reclamation and closure of the site is expected by August 2005;
- Continued process working with USFS towards releasing draft supplemental EIS for the *Kensington Mine Project*. FSEIS scheduled for release in late 2004;
- Also made progress on important permitting work on: *Donlin Creek, Pebble Copper, Rock Creek, Nixon Fork, Gil and Tulsequah Mine Projects*.

WATER ACCOMPLISHMENTS.

- **Processing Temporary Water Use Authorizations.** In FY04, staff processed 95 temporary water use permits without litigation with a median processing time of 20 days. The lack of litigation is a significant change and increased the reliability of the permits for the applicants.
- **Processing Water Rights.** In FY04, staff processed 324 water rights and received 271 new ones. While doing so, the Division maintained its performance standard of processing a typical new application within 60 days.
- **Hydrologic Survey Unit** provided Division staff with hydrologic information, data, and evaluations for 575 water permits, mining issues and legal issues; provided hydrologic investigations and assistance to 175 customers; provided hydrologic data to 725 customers; and assisted 425 customers with data evaluation and interpretation. Entered 4,200 new hydrologic data points to its existing databases.
- **Dam Safety and Construction Unit** reviewed or performed 11 periodic dam safety inspections; issued 12 Certificates to Construct, Modify or Operate a Jurisdictional Dam; and reviewed and tested 5 Emergency Action Plans for high hazard dams. The unit also provided engineering assistance to the Mining Section and Surface Coal Mining unit for projects at Usibelli Coal Mine, Illinois Creek Gold Mine, and Pogo exploration sites.

Statutory and Regulatory Authority

AS 27; AS 29; AS 38; AS 41; AS 46; 11AAC;

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Director's Office/Mining, Land, & Water Component Financial Summary

All dollars shown in thousands

	FY2004 Actuals	FY2005 Management Plan	FY2006 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	370.2	327.3	337.3
72000 Travel	10.7	17.4	17.4
73000 Services	35.3	40.0	40.0
74000 Commodities	8.9	18.8	18.8
75000 Capital Outlay	0.0	0.0	0.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	425.1	403.5	413.5
Funding Sources:			
1004 General Fund Receipts	376.9	384.4	394.2
1007 Inter-Agency Receipts	48.2	19.1	19.3
Funding Totals	425.1	403.5	413.5

Estimated Revenue Collections

Description	Master Revenue Account	FY2004 Actuals	FY2005 Management Plan	FY2006 Governor
<u>Unrestricted Revenues</u>				
None.		0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0
<u>Restricted Revenues</u>				
Interagency Receipts	51015	48.2	19.1	19.3
Restricted Total		48.2	19.1	19.3
Total Estimated Revenues		48.2	19.1	19.3

**Summary of Component Budget Changes
From FY2005 Management Plan to FY2006 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2005 Management Plan	384.4	0.0	19.1	403.5
Adjustments which will continue current level of service:				
-FY 05 Bargaining Unit Contract Terms: GGU	2.1	0.0	0.0	2.1
-FY06 Cost Increases for Bargaining Units and Non-Covered Employees	7.7	0.0	0.2	7.9
FY2006 Governor	394.2	0.0	19.3	413.5

**Director's Office/Mining, Land, & Water
Personal Services Information**

Authorized Positions			Personal Services Costs	
	<u>FY2005</u> <u>Management</u> <u>Plan</u>	<u>FY2006</u> <u>Governor</u>		
Full-time	5	5	Annual Salaries	237,356
Part-time	0	0	COLA	2,341
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	118,225
			Less 2.44% Vacancy Factor	(8,722)
			Lump Sum Premium Pay	0
Totals	5	5	Total Personal Services	349,200

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Administrative Assistant	1	0	0	0	1
Administrative Clerk II	1	0	0	0	1
Administrative Manager III	1	0	0	0	1
Division Director	1	0	0	0	1
Natural Resource Mgr IV	1	0	0	0	1
Totals	5	0	0	0	5